CENTRAL VALLEY COMMUNITY BANCORP
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 000—31977

CENTRAL VALLEY COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	77-0539125 (I.R.S. Employer Identification No.)
7100 N. Financial Dr., Suite 101, Fresno, California (Address of principal executive offices)	93720 (Zip code)

Registrant's telephone number (559) 298-1775

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý

Non-accelerated filer o (Do not check if a smaller reporting company)	Small reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of November 2, 2015 there were 10,993,463 shares of the registrant's common stock outstanding.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY

2015 QUARTERLY REPORT ON FORM 10-Q

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PART 1: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$27,148	$21,316
Interest-earning deposits in other banks	47,872	55,646
Federal funds sold	266	366
Total cash and cash equivalents	75,286	77,328
Available-for-sale investment securities (Amortized cost of $444,728 at September 30, 2015 and $423,639 at December 31, 2014)	452,842	432,535
Held-to-maturity investment securities (Fair value of $35,256 at September 30, 2015 and $35,096 at December 31, 2014)	32,367	31,964
Loans, less allowance for credit losses of $9,093 at September 30, 2015 and $8,308 at December 31, 2014	590,197	564,280
Bank premises and equipment, net	9,494	9,949
Bank owned life insurance	20,557	20,957
Federal Home Loan Bank stock	4,823	4,791
Goodwill	29,917	29,917
Core deposit intangibles	1,091	1,344
Accrued interest receivable and other assets	17,421	19,118
Total assets	$1,233,995	$1,192,183
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$386,408	$376,402
Interest bearing	688,446	662,750
Total deposits	1,074,854	1,039,152
Junior subordinated deferrable interest debentures	5,155	5,155
Accrued interest payable and other liabilities	16,533	16,831
Total liabilities	1,096,542	1,061,138
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, no par value, $1,000 per share liquidation preference; 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, no par value; 80,000,000 shares authorized; issued and outstanding: 10,993,463 at September 30, 2015 and 10,980,440 at December 31, 2014	54,345	54,216
Retained earnings	78,195	71,452
Accumulated other comprehensive income, net of tax	4,913	5,377
Total shareholders' equity	137,453	131,045
Total liabilities and shareholders' equity	$1,233,995	$1,192,183

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except share and per share amounts)	For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014
INTEREST INCOME:				
Interest and fees on loans	$7,747	$7,301	$22,677	$22,197
Interest on deposits in other banks	49	37	147	134
Interest on Federal funds sold	—	—	—	1
Interest and dividends on investment securities:				
Taxable	1,234	1,341	3,477	4,127
Exempt from Federal income taxes	1,593	1,469	4,627	4,305
Total interest income	10,623	10,148	30,928	30,764
INTEREST EXPENSE:				
Interest on deposits	246	249	718	813
Interest on junior subordinated deferrable interest debentures	25	23	73	72
Total interest expense	271	272	791	885
Net interest income before provision for credit losses	10,352	9,876	30,137	29,879
PROVISION FOR CREDIT LOSSES	100	—	600	(400)
Net interest income after provision for credit losses	10,252	9,876	29,537	30,279
NON-INTEREST INCOME:				
Service charges	700	811	2,321	2,441
Appreciation in cash surrender value of bank owned life insurance	142	156	451	459
Interchange fees	297	295	881	924
Net gain on disposal of other real estate owned	—	—	11	63
Net realized gains on sales of investment securities	—	240	1,459	573
Federal Home Loan Bank dividends	120	86	474	237
Loan placement fees	241	212	794	401
Other income	222	261	1,117	983
Total non-interest income	1,722	2,061	7,508	6,081
NON-INTEREST EXPENSES:				
Salaries and employee benefits	5,254	5,076	15,472	14,833
Occupancy and equipment	1,204	1,222	3,522	3,671
Professional services	395	375	1,212	886
Data processing	287	448	862	1,362
Regulatory assessments	223	177	821	569
ATM/Debit card expenses	145	166	411	476
License and maintenance contracts	123	128	392	384
Advertising	157	155	474	462
Internet banking expense	167	134	541	359
Amortization of core deposit intangibles	85	84	253	252
Other	988	1,086	3,053	3,266
Total non-interest expenses	9,028	9,051	27,013	26,520
Income before provision for income taxes	2,946	2,886	10,032	9,840
Provision for income taxes	429	535	1,971	2,180

Net income available to common shareholders	$2,517	$2,351	$8,061	$7,660
Earnings per common share:				
Basic earnings per share	$0.23	$0.22	$0.74	$0.70
Weighted average common shares used in basic computation	10,938,160	10,919,630	10,928,780	10,917,892
Diluted earnings per share	$0.23	$0.21	$0.73	$0.70
Weighted average common shares used in diluted computation	11,024,954	11,014,907	11,012,024	11,005,553
Cash dividend per common share	$0.06	$0.05	$0.12	$0.15

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Net income	$2,517	$2,351	$8,061	$7,660
Other Comprehensive Income (Loss):				
Unrealized gains on securities:				
Unrealized holdings gains arising and transferred during the period	3,946	619	677	12,060
Less: reclassification for net gains included in net income	—	240	1,459	573
Amortization of net unrealized gains transferred	(2)	(2)	(4)	(20)
Other comprehensive income (loss), before tax	3,944	377	(786)	11,467
Tax (expense) benefit related to items of other comprehensive income	(1,624)	(156)	322	(4,660)
Total other comprehensive income (loss)	2,320	221	(464)	6,807
Comprehensive income	$4,837	$2,572	$7,597	$14,467

See notes to unaudited consolidated financial statements.

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CENTRAL VALLEY COMMUNITY BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	For the Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$8,061	$7,660
Adjustments to reconcile net income to net cash provided by operating activities:		
Net decrease in deferred loan fees	(111)	(336)
Depreciation	1,043	1,019
Accretion	(881)	(730)
Amortization	5,995	5,841
Stock-based compensation	184	93
Tax benefit from exercise of stock options	(4)	(6)
Provision for credit losses	600	(400)
Net realized gains on sales of available-for-sale investment securities	(1,459)	(573)
Net loss on disposal of premises and equipment	6	191
Net gain on sale of other real estate owned	(11)	(63)
Increase in bank owned life insurance, net of expenses	(451)	(459)
Net gain on bank owned life insurance	(345)	—
Net decrease (increase) in accrued interest receivable and other assets	2,079	(505)
Net decrease in accrued interest payable and other liabilities	(421)	(409)
Provision for deferred income taxes	6	1,201
Net cash provided by operating activities	14,291	12,524
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available-for-sale investment securities	(156,905)	(137,360)
Proceeds from sales or calls of available-for-sale investment securities	92,647	73,982
Proceeds from maturity and principal repayments of available-for-sale investment securities	39,359	36,133
Net increase in loans	(26,633)	(43,598)
Proceeds from sale of other real estate owned	359	488
Purchases of premises and equipment	(594)	(1,112)
Purchases of bank owned life insurance	(325)	(900)
FHLB stock purchased	(32)	(292)
Proceeds from bank owned life insurance	1,365	—
Proceeds from sale of premises and equipment	—	1
Net cash used in investing activities	(50,759)	(72,658)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand, interest bearing and savings deposits	40,301	12,745
Net decrease in time deposits	(4,599)	(8,025)
Proceeds from exercise of stock options	38	45
Excess tax benefit from exercise of stock options	4	6
Cash dividend payments on common stock	(1,318)	(1,641)
Net cash provided by financing activities	34,426	3,130
Decrease in cash and cash equivalents	(2,042)	(57,004)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	77,328	112,052
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$75,286	$55,048

(In thousands)	For the Nine Months Ended September 30, 2015	2014
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the period for:		
Interest	$798	$904
Income taxes	$845	$1,030
Non-cash investing and financing activities:		
Foreclosure of loan collateral and recognition of other real estate owned	$227	$235
Assumption of other real estate owned liabilities	$121	$—
Transfer of securities from available-for-sale to held-to-maturity	$—	$31,346
Unrealized gain on transfer of securities from available-for-sale to held-to-maturity	$—	$163
Purchases of available-for-sale investment securities, not yet settled	$—	$1,203

See notes to unaudited consolidated financial statements.

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Note 1. Basis of Presentation

The interim unaudited condensed consolidated financial statements of Central Valley Community Bancorp and subsidiary have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These interim condensed consolidated financial statements include the accounts of Central Valley Community Bancorp and its wholly owned subsidiary Central Valley Community Bank (the Bank) (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted. The Company believes that the disclosures are adequate to make the information presented not misleading. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's 2014 Annual Report to Shareholders on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position at September 30, 2015, and the results of its operations and its cash flows for the three and nine month interim periods ended September 30, 2015 and 2014 have been included. Certain reclassifications have been made to prior year amounts to conform to the 2015 presentation. Reclassifications had no effect on prior period net income or shareholders' equity. The results of operations for interim periods are not necessarily indicative of results for the full year.

The preparation of these interim unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Management has determined that since all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment, and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No customer accounts for more than 10 percent of revenues for the Company or the Bank.

The Company terminated its interest in Central Valley Community Insurance Service, LLC (CVCIS) at the beginning of the third quarter of 2015. The Bank's interest in CVCIS was originally established in 2006 for the purpose of providing health, commercial property and casualty insurance products and services primarily to business customers. The termination of this entity did not have a material impact on the Company's financial statements.

Note 2. Fair Value Measurements

Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with applicable guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 — Quoted market prices (unadjusted) for identical instruments traded in active exchange markets that the Company has the ability to access as of the measurement date.

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 — Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, we report the transfer at the beginning of the reporting period. The estimated carrying and fair values of the Company's financial instruments are as follows (in thousands):

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	September 30, 2015				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$27,148	$27,148	$—	$—	$27,148
Interest-earning deposits in other banks	47,872	47,872	—	—	47,872
Federal funds sold	266	266	—	—	266
Available-for-sale investment securities	452,842	7,641	445,201	—	452,842
Held-to-maturity investment securities	32,367	—	35,256	—	35,256
Loans, net	590,197	—	—	587,752	587,752
Federal Home Loan Bank stock	4,823	N/A	N/A	N/A	N/A
Accrued interest receivable	5,592	24	2,968	2,600	5,592
Financial liabilities:					
Deposits	1,074,854	925,902	148,783	—	1,074,685
Junior subordinated deferrable interest debentures	5,155	—	—	3,019	3,019
Accrued interest payable	108	—	83	25	108

	December 31, 2014				
	Carrying	Fair Value			
(In thousands)	Amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$21,316	$21,316	$—	$—	$21,316
Interest-earning deposits in other banks	55,646	55,646	—	—	55,646
Federal funds sold	366	366	—	—	366
Available-for-sale investment securities	432,535	7,585	424,950	—	432,535
Held-to-maturity investment securities	31,964	—	35,096	—	35,096
Loans, net	564,280	—	—	564,667	564,667
Federal Home Loan Bank stock	4,791	N/A	N/A	N/A	N/A
Accrued interest receivable	5,793	25	3,212	2,556	5,793
Financial liabilities:					
Deposits	1,039,152	885,704	153,475	—	1,039,179
Junior subordinated deferrable interest debentures	5,155	—	—	3,119	3,119
Accrued interest payable	114	—	90	24	114

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.
The methods and assumptions used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents — The carrying amounts of cash and due from banks, interest-earning deposits in other banks, and Federal funds sold approximate fair values and are classified as Level 1.

(b) Investment Securities — Investment securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for investment securities classified in Level 2 are based on

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quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

(c) Loans — Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Purchased credit impaired (PCI) loans are measured at estimated fair value on the date of acquisition. Carrying value is calculated as the present value of expected cash flows and approximates fair value. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are initially valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) FHLB Stock — It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(e) Other real estate owned — OREO is measured at fair value less estimated costs to sell when acquired, establishing a new cost basis. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. The Company records OREO as non-recurring with level 3 measurement inputs.

(f) Deposits — Fair value of demand deposit, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount), resulting in a Level 1 classification. Fair value for fixed and variable rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Company for certificates with similar remaining maturities resulting in a Level 2 classification.

(g) Short-Term Borrowings — The fair values of the Company's federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, are based on the market rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(h) Other Borrowings — The fair values of the Company’s long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company’s Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(i) Accrued Interest Receivable/Payable — The fair value of accrued interest receivable and payable is based on the fair value hierarchy of the related asset or liability.

(j) Off-Balance Sheet Instruments — Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not considered significant for financial reporting purposes.

Assets Recorded at Fair Value

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of September 30, 2015:

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Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of September 30, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$51,914	$—	$51,914	$—
Obligations of states and political subdivisions	178,999	—	178,999	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	210,543	—	210,543	—
Private label residential mortgage backed securities	3,745	—	3,745	—
Other equity securities	7,641	7,641	—	—
Total assets measured at fair value on a recurring basis	$452,842	$7,641	$445,201	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the nine months ended September 30, 2015, no transfers between levels occurred.
There were no Level 3 assets measured at fair value on a recurring basis at or during the nine month period ended September 30, 2015. Also there were no liabilities measured at fair value on a recurring basis at September 30, 2015.

Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at September 30, 2015 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Assets:				
Impaired loans:				
Commercial:				
Commercial and industrial	$9	$—	$—	$9
Total commercial	9	—	—	9
Consumer:				
Equity loans and lines of credit	$142	$—	$—	$142
Total impaired loans	151	—	—	151
Other real estate owned	—	—	—	—
Total assets measured at fair value on a non-recurring basis	$151	$—	$—	$151

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the

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discounted cash flow method are excluded from the table above. The discounted cash flow methods as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the nine month period ended September 30, 2015.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $184,000 with a valuation allowance of $33,000 at September 30, 2015, resulting in fair value of $151,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

When present, certain residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals and/or evaluations. These appraisals and/or evaluations may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sales and income data available. As of September 30, 2015, the adjustments made by appraisers or management in arriving at the fair value of financial instruments measured on a non-recurring basis were not considered significant for financial reporting purposes.

During the three and nine months ended September 30, 2015, provisions for credit losses and charge-offs related to loans carried at fair value were not considered significant for financial reporting purposes.

During the three and nine months ended September 30, 2014 there was no provision for credit losses related to loans carried at fair value. During the three months ended September 30, 2014 there was a net recovery of $131,000, and for the nine months then ended, there were net charge-offs of $177,000 related to loans carried at fair value.

There were no liabilities measured at fair value on a non-recurring basis at September 30, 2015.

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014:

Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of December 31, 2014 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale securities				
Debt Securities:				
U.S. Government agencies	$33,090	$—	$33,090	$—
Obligations of states and political subdivisions	149,295	—	149,295	—
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	237,872	—	237,872	—
Private label residential mortgage backed securities	4,693	—	4,693	—
Other equity securities	7,585	7,585	—	—
Total assets measured at fair value on a recurring basis	$432,535	$7,585	$424,950	$—

Securities in Level 1 are mutual funds and fair values are based on quoted market prices for identical instruments traded in active markets. Fair values for available-for-sale investment securities in Level 2 are based on quoted market prices for similar securities in active markets. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings. During the year ended December 31, 2014, no transfers between levels occurred.

There were no Level 3 assets measured at fair value on a recurring basis at or during the year ended December 31, 2014. Also there were no liabilities measured at fair value on a recurring basis at December 31, 2014.

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Non-recurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring basis. These include assets and liabilities that are measured at the lower of cost or fair value that were recognized at fair value which was below cost at December 31, 2014 (in thousands).

Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans:				
Commercial:				
Commercial and industrial	$7,019	$—	$—	$7,019
Total commercial	7,019	—	—	7,019
Consumer:				
Equity loans and lines of credit	$777	$—	$—	$777
Total consumer	777	—	—	777
Total impaired loans	7,796	—	—	7,796
Total assets measured at fair value on a non-recurring basis	$7,796	$—	$—	$7,796

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014 (dollars in thousands):

Description	Fair Value	Valuation Technique(s)	Significant Unobservable Input(s)	Range (Weighted Average)
Commercial and industrial	$7,019	Sales comparison	Appraiser adjustments on sales comparable data	0.00%-6.00%
		Management estimates	Management adjustments for depreciation in values depending on property types	8.00%-25.00%
Equity loans and lines of credit	$777	Sales comparison	Appraiser adjustments on sales comparable data	0.00%-3.50%
		Management estimates	Management adjustments for depreciation in values depending on property types	11.00%

At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. The fair value of impaired loans is based on the fair value of the collateral. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. Impaired loans evaluated under the discounted cash flow method are excluded from the table above. The discounted cash flow method as prescribed by ASC Topic 310 is not a fair value measurement since the discount rate utilized is the loan's effective interest rate which is not a market rate. There were no changes in valuation techniques used during the year ended December 31, 2014.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value is compared with independent data sources such as recent market data or industry-wide statistics.

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $8,239,000 with a valuation allowance of $443,000 at December 31, 2014, resulting in fair value of $7,796,000. The valuation allowance represents specific allocations for the allowance for credit losses for impaired loans.

During the year ended December 31, 2014, there was $3,921,000 provision for credit losses related to loans carried at fair value. During the year ended December 31, 2014, there was $3,539,000 net charge-offs related to loans carried at fair value.

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There were no liabilities measured at fair value on a non-recurring basis at December 31, 2014.

Note 3. Investments

The investment portfolio consists primarily of U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations, private label residential mortgage backed securities (PLRMBS), and obligations of states and political subdivisions securities. As of September 30, 2015, $126,238,000 of these securities were held as collateral for borrowing arrangements, public funds, and for other purposes.

The fair value of the available-for-sale investment portfolio reflected a net unrealized gain of $8,114,000 at September 30, 2015 compared to an unrealized gain of $8,896,000 at December 31, 2014. The unrealized gain recorded is net of $3,339,000 and $3,661,000 in tax liabilities as accumulated other comprehensive income within shareholders' equity at September 30, 2015 and December 31, 2014, respectively.

The following table sets forth the carrying values and estimated fair values of our investment securities portfolio at the dates indicated (in thousands):

	September 30, 2015			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$51,679	$377	$(142)	$51,914
Obligations of states and political subdivisions	174,758	5,358	(1,117)	178,999
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	208,318	2,633	(408)	210,543
Private label residential mortgage backed securities	2,473	1,272	—	3,745
Other equity securities	7,500	141	—	7,641
Total available-for-sale	$444,728	$9,781	$(1,667)	$452,842

	September 30, 2015			
Held-to-Maturity Securities	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value
Debt securities:				
Obligations of states and political subdivisions	$32,367	$2,900	$(11)	$35,256

	December 31, 2014			
Available-for-Sale Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$33,088	$245	$(243)	$33,090
Obligations of states and political subdivisions	143,343	6,266	(314)	149,295
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	236,629	2,033	(790)	237,872
Private label residential mortgage backed securities	3,079	1,614	—	4,693
Other equity securities	7,500	85	—	7,585
Total available-for-sale	$423,639	$10,243	$(1,347)	$432,535

	December 31, 2014			
Held-to-Maturity Securities	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Estimated Fair Value

Debt securities:				
Obligations of states and political subdivisions	31,964	3,138	(6	) $35,096

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Proceeds and gross realized gains (losses) from the sales or calls of investment securities for the periods ended September 30, 2015 and 2014 are shown below (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Available-for-Sale Securities	2015	2014	2015	2014
Proceeds from sales or calls	$—	$21,741	$92,647	$73,982
Gross realized gains from sales or calls	—	271	1,692	1,423
Gross realized losses from sales or calls	—	(31)	(233)	(850)

Losses recognized in 2015 and 2014 were incurred in order to reposition the investment securities portfolio based on the current rate environment. The securities which were sold at a loss were acquired when the rate environment was not as volatile. The securities which were sold were primarily purchased several years ago to serve a purpose in the rate environment in which the securities were purchased. The Company is addressing risks in the security portfolio by selling these securities and using proceeds to purchase securities that fit with the Company's current risk profile.

The provision for income taxes includes $601,000 and $236,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the nine months ended September 30, 2015 and 2014, respectively. The provision for income taxes includes $0 and $99,000 income tax impact from the reclassification of unrealized net gains on available-for-sale securities to realized net gains on available-for-sale securities for the three months ended September 30, 2015 and 2014, respectively.

Investment securities, aggregated by investment category, with unrealized losses as of the dates indicated are summarized and classified according to the duration of the loss period as follows (in thousands):

	September 30, 2015					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$14,470	$(27)	$4,797	$(115)	$19,267	$(142)
Obligations of states and political subdivisions	67,406	(1,117)	—	—	67,406	(1,117)
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	24,951	(139)	18,440	(269)	43,391	(408)
Total available-for-sale	$106,827	$(1,283)	$23,237	$(384)	$130,064	$(1,667)

	September 30, 2015					
	Less than 12 Months		12 Months or More		Total	
Held-to-Maturity Securities	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,048	$(11)	$—	$—	$1,048	$(11)

	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Available-for-Sale Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government agencies	$10,950	$(193)	$1,737	$(50)	$12,687	$(243)
	16,776	(89)	15,290	(225)	32,066	(314)

Obligations of states and political subdivisions						
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	52,905	(420)	31,000	(370)	83,905	(790)
Total available-for-sale	$80,631	$(702)	$48,027	$(645)	$128,658	$(1,347)

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	December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
Held-to-Maturity Securities	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
Debt securities:						
Obligations of states and political subdivisions	$1,067	$(6)	$—	$—	$1,067	$(6)

We periodically evaluate each investment security for other-than-temporary impairment, relying primarily on industry analyst reports, observation of market conditions and interest rate fluctuations. The portion of the impairment that is attributable to a shortage in the present value of expected future cash flows relative to the amortized cost should be recorded as a current period charge to earnings. The discount rate in this analysis is the original yield expected at time of purchase.

As of September 30, 2015, the Company performed an analysis of the investment portfolio to determine whether any of the investments held in the portfolio had an other-than-temporary impairment (OTTI). Management evaluated all individual available-for-sale investment securities with an unrealized loss at September 30, 2015 and identified those that had an unrealized loss for at least a consecutive 12 month period, which had an unrealized loss at September 30, 2015 greater than 10% of the recorded book value on that date, or which had an unrealized loss of more than $10,000. Management also analyzed any securities that may have been downgraded by credit rating agencies. For those bonds that met the evaluation criteria, management obtained and reviewed the most recently published national credit ratings for those bonds. For those bonds that were municipal debt securities with an investment grade rating by the rating agencies, management also evaluated the financial condition of the municipality and any applicable municipal bond insurance provider and concluded that no credit related impairment existed.

U.S. Government Agencies

At September 30, 2015, the Company held 15 U.S. Government agency securities, of which four were in a loss position for less than 12 months and one was in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in direct obligations of U.S. government agencies were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized costs of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold, and it is more likely than not that it will not be required to sell, those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2015.

Obligations of States and Political Subdivisions

At September 30, 2015, the Company held 150 obligations of states and political subdivision securities of which 25 were in a loss position for less than 12 months and none were in a loss position or had been in a loss position for 12 months or more. The unrealized losses on the Company’s investments in obligations of states and political subdivision securities were caused by interest rate changes. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2015.

U.S. Government Sponsored Entities and Agencies Collateralized by Residential Mortgage Obligations

At September 30, 2015, the Company held 180 U.S. Government sponsored entity and agency securities collateralized by residential mortgage obligations of which 15 were in a loss position for less than 12 months and 11 have been in a loss position for more than 12 months. The unrealized losses on the Company’s investments in U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations were caused by interest rate changes. The contractual cash flows of those investments are guaranteed by an agency or sponsored entity of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company’s investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company has the ability to hold and does not intend to sell, and it is more likely than not that it will not be required to sell those investments until a recovery of fair value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2015.

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Private Label Residential Mortgage Backed Securities

At September 30, 2015, the Company had a total of 17 PLRMBS with a remaining principal balance of $2,473,000 and a net unrealized gain of approximately $1,272,000. None of these securities was recorded with an unrealized loss at September 30, 2015. Nine of these PLRMBS with a remaining principal balance of $2,155,000 had credit ratings below investment grade. The Company continues to monitor these securities for indications that declines in value, if any, may be other-than-temporary.

Other Equity Securities

At September 30, 2015, the Company had one mutual fund equity investment. The equity investment was not recorded with an unrealized loss at September 30, 2015.

The following tables provide a roll forward for the three and nine month periods ended September 30, 2015 and 2014 of investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. Additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred on securities for which OTTI credit losses have been previously recognized.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Beginning balance	$747	$800	$747	$800
Amounts related to credit loss for which an OTTI charge was not previously recognized	—	—	—	—
Increases to the amount related to credit loss for which OTTI was previously recognized	—	—	—	—
Realized losses for securities sold	—	—	—	—
Ending balance	$747	$800	$747	$800

The amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities at September 30, 2015 by contractual maturity is shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2015	
Available-for-Sale Securities	Amortized Cost	Estimated Fair Value
Within one year	$—	$—
After one year through five years	11,621	12,010
After five years through ten years	30,472	31,322
After ten years	132,665	135,667
	174,758	178,999
Investment securities not due at a single maturity date:		
U.S. Government agencies	51,679	51,914
U.S. Government sponsored entities and agencies collateralized by residential mortgage obligations	208,318	210,543
Private label residential mortgage backed securities	2,473	3,745
Other equity securities	7,500	7,641
Total available-for-sale	$444,728	$452,842

	September 30, 2015	
Held-to-Maturity Securities	Amortized Cost	Estimated Fair Value
After ten years	$32,367	$35,256

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During 2014, to better manage our interest rate risk, the Company transferred from available-for-sale to held-to-maturity selected municipal securities in our portfolio having a book value of approximately $31 million, a market value of approximately $32 million, and a net unrecognized gain of approximately $163,000. This transfer was completed after careful consideration of our intent and ability to hold these securities to maturity. There were no transfers or reclassifications of securities in or out of held-to-maturity during the three or nine months ended September 30, 2015. At September 30, 2015 and December 31, 2014 the remaining unaccreted balance of these securities included in accumulated other comprehensive income was $138,000 and $142,000, respectively.

Note 4. Loans and Allowance for Credit Losses

Outstanding loans are summarized as follows:

Loan Type (Dollars in thousands)	September 30, 2015	% of Total Loans		December 31, 2014	% of Total Loans	
Commercial:						
Commercial and industrial	$104,567	17.5	%	$89,007	15.5	%
Agricultural land and production	41,544	6.9	%	39,140	6.8	%
Total commercial	146,111	24.4	%	128,147	22.3	%
Real estate:						
Owner occupied	170,377	28.5	%	176,804	30.9	%
Real estate construction and other land loans	36,210	6.0	%	38,923	6.8	%
Commercial real estate	116,931	19.5	%	106,788	18.7	%
Agricultural real estate	70,485	11.8	%	57,501	10.0	%
Other real estate	7,732	1.3	%	6,611	1.2	%
Total real estate	401,735	67.1	%	386,627	67.6	%
Consumer:						
Equity loans and lines of credit	41,398	6.9	%	47,575	8.3	%
Consumer and installment	9,789	1.6	%	10,093	1.8	%
Total consumer	51,187	8.5	%	57,668	10.1	%
Net deferred origination costs	257			146		
Total gross loans	599,290	100.0	%	572,588	100.0	%
Allowance for credit losses	(9,093)			(8,308)		
Total loans	$590,197			$564,280		

The table above includes loans acquired at fair value on July 1, 2013 when the Company acquired Visalia Community Bank (VCB), in a combined cash and stock transaction. The acquired VCB assets and liabilities were recorded at fair value at the date of acquisition. Loans acquired in the VCB acquisition had outstanding balances of $66,572,000 and $77,882,000 as of September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015 and December 31, 2014, loans originated under Small Business Administration (SBA) programs totaling $11,516,000 and $8,782,000, respectively, were included in the real estate and commercial categories.

Purchased Credit Impaired Loans

At December 31, 2013, the Company had loans that were acquired in an acquisition, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. There were no such loans outstanding at September 30, 2015 or December 31, 2014.

These purchased credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. The Company estimates the amount and timing of expected cash flows for each loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

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Accretable yield, or income expected to be collected for the nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	For the Nine Months Ended September 30, 2015	2014
Balance at beginning of period	$—	$94
Additions	—	—
Accretion	—	(907)
Reclassification from non-accretable difference	—	813
Disposals	—	—
Balance at end of period	$—	$—

The allowance for credit losses (the "Allowance") is a valuation allowance for probable incurred credit losses in the Company's loan portfolio. The Allowance is established through a provision for credit losses which is charged to expense. Additions to the Allowance are expected to maintain the adequacy of the total Allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the Allowance. Cash received on previously charged off credits is recorded as a recovery to the Allowance. The overall Allowance consists of two primary components, specific reserves related to impaired loans and general reserves for probable incurred losses related to loans that are not impaired.

For all portfolio segments, the determination of the general reserve for loans that are not impaired is based on estimates made by management, including but not limited to, consideration of historical losses by portfolio segment (and in certain cases peer data) over the most recent 20 quarters, and qualitative factors including economic trends in the Company's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Company's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The following table shows the summary of activities for the Allowance as of and for the three months ended September 30, 2015 and 2014 by portfolio segment (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, July 1, 2015	$ 3,553	$4,429	$732	$—	$8,714
Provision charged to operations	(186)	154	27	105	100
Losses charged to allowance	(11)	—	(22)	—	(33)
Recoveries	267	8	37	—	312
Ending balance, September 30, 2015	$ 3,623	$4,591	$774	$ 105	$9,093
Allowance for credit losses:					
Beginning balance, July 1, 2014	$ 1,874	$4,157	$981	$ 295	$7,307
Provision charged to operations	243	(121)	(85)	(37)	—
Losses charged to allowance	(1)	—	(57)	—	(58)
Recoveries	41	159	40	—	240
Ending balance, September 30, 2014	$ 2,157	$4,195	$879	$ 258	$7,489

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The following table shows the summary of activities for the allowance for loan losses as of and for the nine months ended September 30, 2015 and 2014 by portfolio segment of loans (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Beginning balance, January 1, 2015	$3,130	$4,058	$1,078	$42	$8,308
Provision charged to operations	731	509	(703)	63	600
Losses charged to allowance	(708)	—	(95)	—	(803)
Recoveries	470	24	494	—	988
Ending balance, September 30, 2015	$3,623	$4,591	$774	$105	$9,093
Allowance for credit losses:					
Beginning balance, January 1, 2014	$2,444	$5,174	$1,168	$422	$9,208
Provision charged to operations	768	(970)	(34)	(164)	(400)
Losses charged to allowance	(1,195)	(183)	(467)	—	(1,845)
Recoveries	140	174	212	—	526
Ending balance, September 30, 2014	$2,157	$4,195	$879	$258	$7,489

The following is a summary of the Allowance by impairment methodology and portfolio segment as of September 30, 2015 and December 31, 2014 (in thousands):

	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:					
Ending balance, September 30, 2015	$3,623	$4,591	774	$105	$9,093
Ending balance: individually evaluated for impairment	$10	$145	36	$—	$191
Ending balance: collectively evaluated for impairment	$3,613	$4,446	738	$105	$8,902
Ending balance, December 31, 2014	$3,130	$4,058	$1,078	$42	$8,308
Ending balance: individually evaluated for impairment	$230	$162	$220	$—	$612
Ending balance: collectively evaluated for impairment	$2,900	$3,896	$858	$42	$7,696

The following table shows the ending balances of loans as of September 30, 2015 and December 31, 2014 by portfolio segment and by impairment methodology (in thousands):

	Commercial	Real Estate	Consumer	Total
Loans:				
Ending balance, September 30, 2015	$ 146,111	$401,735	$51,187	$599,033
Ending balance: individually evaluated for impairment	$ 55	$5,294	$1,498	$6,847
Ending balance: collectively evaluated for impairment	$ 146,056	$396,441	$49,689	$592,186
Loans:				
Ending balance, December 31, 2014	$ 128,147	$386,627	$57,668	$572,442
Ending balance: individually evaluated for impairment	$ 7,268	$8,512	$3,046	$18,826
Ending balance: collectively evaluated for impairment	$ 120,879	$378,115	$54,622	$553,616

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The following table shows the loan portfolio by class allocated by management's internal risk ratings at September 30, 2015 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$93,454	$9,343	$ 1,770	$—	$104,567
Agricultural land and production	29,794	11,750	—	—	41,544
Real Estate:					
Owner occupied	164,316	4,481	1,580	—	170,377
Real estate construction and other land loans	30,829	2,202	3,179	—	36,210
Commercial real estate	108,437	3,720	4,774	—	116,931
Agricultural real estate	58,253	12,232	—	—	70,485
Other real estate	7,732	—	—	—	7,732
Consumer:					
Equity loans and lines of credit	38,947	459	1,992	—	41,398
Consumer and installment	9,772	—	17	—	9,789
Total	$541,534	$44,187	$ 13,312	$—	$599,033

The following table shows the loan portfolio by class allocated by management's internally assigned risk grade ratings at December 31, 2014 (in thousands):

	Pass	Special Mention	Sub-Standard	Doubtful	Total
Commercial:					
Commercial and industrial	$78,333	$2,345	$ 8,329	$—	$89,007
Agricultural land and production	39,140	—	—	—	39,140
Real Estate:					
Owner occupied	170,568	2,778	3,458	—	176,804
Real estate construction and other land loans	32,114	1,130	5,679	—	38,923
Commercial real estate	95,831	215	10,742	—	106,788
Agricultural real estate	55,018	2,123	360	—	57,501
Other real estate	6,611	—	—	—	6,611
Consumer:					
Equity loans and lines of credit	42,334	72	5,169	—	47,575
Consumer and installment	10,072	—	21	—	10,093
Total	$530,021	$8,663	$ 33,758	$—	$572,442

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The following table shows an aging analysis of the loan portfolio by class and the time past due at September 30, 2015 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ —	$—	$ 18	$ 18	$ 104,549	$ 104,567	$—	$ 55
Agricultural land and production	—	—	—	—	41,544	41,544	—	—
Real estate:	—			—	—	—		
Owner occupied	—	—	—	—	170,377	170,377	—	358
Real estate construction and other land loans	—	—	—	—	36,210	36,210	—	—
Commercial real estate	—	—	—	—	116,931	116,931	—	583
Agricultural real estate	—	—	—	—	70,485	70,485	—	—
Other real estate	—	—	—	—	7,732	7,732	—	—
Consumer:				—	—	—		
Equity loans and lines of credit	—	—	1,266	1,266	40,132	41,398	—	1,484
Consumer and installment	36	15	—	51	9,738	9,789	—	14
Total	$ 36	$ 15	$ 1,284	$ 1,335	$ 597,698	$ 599,033	$ —	$ 2,494

The following table shows an aging analysis of the loan portfolio by class and the time past due at December 31, 2014 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing	Non-accrual
Commercial:								
Commercial and industrial	$ 172	$ 88	$—	$ 260	$ 88,747	$ 89,007	$ —	$ 7,265
Agricultural land and production	—	—	—	—	39,140	39,140	—	—
Real estate:	—							
Owner occupied	164	—	249	413	176,391	176,804	—	1,363
Real estate construction and other land loans	547	—	—	547	38,376	38,923	—	547
Commercial real estate	—	—	—	—	106,788	106,788	—	1,468
Agricultural real estate	—	—	—	—	57,501	57,501	—	360
Other real estate	—	—	—	—	6,611	6,611	—	—

Consumer:								
Equity loans and lines of credit	—	—	227	227	47,348	47,575	—	3,030
Consumer and installment	30	—	—	30	10,063	10,093	—	19
Total	$ 913	$ 88	$ 476	$ 1,477	$ 570,965	$ 572,442	$ —	$ 14,052

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The following table shows information related to impaired loans by class at September 30, 2015 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$3	$5	$—
Real estate:			
Owner occupied	173	246	—
Real estate construction and other land loans	—	—	—
Commercial real estate	1,174	1,314	—
Agricultural real estate	—	—	—
Total real estate	1,347	1,560	—
Consumer:			
Equity loans and lines of credit	1,276	1,951	—
Total with no related allowance recorded	2,626	3,516	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	52	55	10
Real estate:			
Owner occupied	185	214	21
Real estate construction and other land loans	3,179	3,179	5
Commercial real estate	583	598	119
Total real estate	3,947	3,991	145
Consumer:			
Equity loans and lines of credit	208	222	35
Consumer and installment	14	17	1
Total consumer	222	239	36
Total with an allowance recorded	4,221	4,285	191
Total	$6,847	$7,801	$191

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

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The following table shows information related to impaired loans by class at December 31, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial:			
Commercial and industrial	$6,440	$9,991	$—
Agricultural land and production	—	1,722	—
Total commercial	6,440	11,713	—
Real estate:			
Owner occupied	1,188	1,255	—
Real estate construction and other land loans	547	799	—
Commercial real estate	1,794	1,794	—
Agricultural real estate	360	360	—
Total real estate	3,889	4,208	—
Consumer:			
Equity loans and lines of credit	2,019	2,707	—
Consumer and installment	—	—	—
Total consumer	2,019	2,707	—
Total with no related allowance recorded	12,348	18,628	—
With an allowance recorded:			
Commercial:			
Commercial and industrial	828	835	230
Real estate:			
Owner occupied	199	219	30
Real estate construction and other land loans	3,542	3,542	72
Commercial real estate	882	1,022	60
Total real estate	4,623	4,783	162
Consumer:			
Equity loans and lines of credit	1,008	1,026	217
Consumer and installment	19	21	3
Total consumer	1,027	1,047	220
Total with an allowance recorded	6,478	6,665	612
Total	$18,826	$25,293	$612

The recorded investment in loans excludes accrued interest receivable and net loan origination fees, due to immateriality.

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the three months ended September 30, 2015 and 2014.

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$143	$ —	$20	$ —
Real estate:				
Owner occupied	556	—	1,227	14
Real estate construction and other land loans	1,064	57	1,335	18
Commercial real estate	2,020	—	377	—
Agricultural real estate	72	—	—	—
Total real estate	3,712	57	2,939	32
Consumer:				
Equity loans and lines of credit	1,595	—	1,652	—
Consumer and installment	—	—	8	—
Total consumer	1,595	—	1,660	—
Total with no related allowance recorded	5,450	57	4,619	32
With an allowance recorded:				
Commercial:				
Commercial and industrial	55	—	8	—
Real estate:				
Owner occupied	187	—	816	—
Real estate construction and other land loans	2,123	—	3,687	66
Commercial real estate	660	20	43	—
Total real estate	2,970	20	4,546	66
Consumer:				
Equity loans and lines of credit	209	—	314	—
Consumer and installment	14	—	14	—
Total consumer	223	—	328	—
Total with an allowance recorded	3,248	20	4,882	66
Total	$8,698	$ 77	$9,501	$ 98

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The following presents by class, information related to the average recorded investment and interest income recognized on impaired loans for the nine months ended September 30, 2015 and 2014.

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial:				
Commercial and industrial	$3,797	$—	$184	$—
Agricultural land and production	—	—	—	—
Total commercial	3,797	—	184	—
Real estate:				
Owner occupied	950	—	2,406	41
Real estate construction and other land loans	706	175	1,345	18
Commercial real estate	2,171	—	501	—
Agricultural real estate	274	—	—	—
Other real estate	—	—	—	—
Total real estate	4,101	175	4,252	59
Consumer:				
Equity loans and lines of credit	2,032	—	1,837	—
Consumer and installment	—	—	11	—
Total consumer	2,032	—	1,848	—
Total with no related allowance recorded	9,930	175	6,284	59
With an allowance recorded:				
Commercial:				
Commercial and industrial	307	—	351	—
Agricultural land and production	—	—	—	—
Total commercial	307	—	351	—
Real estate:				
Owner occupied	193	—	283	—
Real estate construction and other land loans	2,986	—	3,852	204
Commercial real estate	807	59	13	—
Agricultural real estate	—	—	—	—
Other real estate	—	—	—	—
Total real estate	3,986	59	4,148	204
Consumer:				
Equity loans and lines of credit	373	—	251	—
Consumer and installment	17	—	29	—
Total consumer	390	—	280	—
Total with an allowance recorded	4,683	59	4,779	204
Total	$14,613	$ 234	$11,063	$ 263

Foregone interest on nonaccrual loans totaled $366,000 and $270,000 for the nine month periods ended September 30, 2015 and 2014, respectively. For the three month periods ended September 30, 2015 and 2014, foregone interest on nonaccrual loans totaled $91,000 and $95,000, respectively.

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Troubled Debt Restructurings:
As of September 30, 2015 and December 31, 2014, the Company has a recorded investment in troubled debt restructurings of $5,676,000 and $6,600,000, respectively. The Company has allocated $6,000 and $132,000 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of September 30, 2015 and December 31, 2014, respectively. The Company has committed to lend no additional amounts as of September 30, 2015 to customers with outstanding loans that are classified as troubled debt restructurings.
During the nine month period ended September 30, 2015 two loans were modified as a troubled debt restructuring. The modification of the terms of such loan included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same period, there were no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower was forgiven. During the three months ended September 30, 2015 and September 30, 2014, no loans were modified as troubled debt restructurings.
The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2015 (in thousands):

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post Modification Outstanding Recorded Investment (3)	Outstanding Recorded Investment
Commercial and Industrial	2	$ 42	$—	$ 42	$ 34

(1) Amounts represent the recorded investment in loans before recognizing effects of the TDR, if any.
(2) Principal Modification includes principal forgiveness at the time of modification, contingent principal forgiveness granted over the life of the loan based on borrower performance, and principal that has been legally separated and deferred to the end of the loan, with zero percent contractual interest rate.
(3) Balance outstanding after principal modification, if any borrower reduction to recorded investment.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2014 (in thousands):

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment (1)	Principal Modification (2)	Post Modification Outstanding Recorded Investment (3)	Outstanding Recorded Investment
Equity loans and lines of credit	1	$ 7	$—	$ 7	$ 4

During the three months ended September 30, 2015 and 2014 no loans were modified as troubled debt restructuring. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. There were no defaults on troubled debt restructurings, within twelve months following the modification, during the nine months ended September 30, 2015 or September 30, 2014.

Note 5. Goodwill and Intangible Assets

Business combinations involving the Company's acquisition of the equity interests or net assets of another enterprise give rise to goodwill. Total goodwill at September 30, 2015 was $29,917,000 consisting of $14,643,000, $8,934,000, and $6,340,000 representing the excess of the cost of Service 1st Bancorp, Bank of Madera County, and Visalia Community Bank, respectively, over the net amounts assigned to assets acquired and liabilities assumed in the transactions accounted for under the purchase method of accounting. The value of goodwill is ultimately derived from the Company's ability to generate net earnings after the acquisitions and is not deductible for tax purposes. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, goodwill is assessed at least annually for impairment.

The Company has selected September 30 as the date to perform the annual impairment test. As of September 30, 2015, management assessed qualitative factors including performance trends and noted no factors indicating goodwill impairment.

Goodwill is also tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. No such events or circumstances arose during the first nine months of 2015.

The intangible assets at September 30, 2015 represent the estimated fair value of the core deposit relationships acquired in the 2013 acquisition of Visalia Community Bank of $1,365,000, and Service 1st Bancorp in 2008 of $1,400,000. Core deposit intangibles are being amortized by the straight-line method (which approximates the effective interest method) over an estimated life of seven to ten years from the date of acquisition. The carrying value of intangible assets at

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September 30, 2015 was $1,091,000 net of $1,674,000 in accumulated amortization expense. Management evaluates the remaining useful lives quarterly to determine whether events or circumstances warrant a revision to the remaining periods of amortization. Based on the evaluation, no changes to the remaining useful lives was required in the third quarter of 2015. Management performed an annual impairment test on core deposit intangibles as of September 30, 2015 and determined no impairment was necessary. Amortization expense recognized was $253,000 and $252,000 for the nine month periods ended September 30, 2015 and 2014, respectively. Amortization expense recognized was $85,000 and $84,000 for the three month periods ended September 30, 2015 and 2014, respectively.
The following table summarizes the Company’s estimated core deposit intangible amortization expense for each of the next five years (in thousands):

Years Ending	Estimated Core Deposit Intangible Amortization
2015	$68
2016	137
2017	137
2018	137
2019	137
Thereafter	475
	$1,091

Note 6. Borrowing Arrangements

As of September 30, 2015 and December 31, 2014, the Company had no Federal Home Loan Bank (FHLB) of San Francisco advances.
FHLB advances are secured under the standard credit and securities-backed credit programs. Investment securities with amortized costs totaling $800,000 and $1,256,000, and market values totaling $884,000 and $1,364,000 at September 30, 2015 and December 31, 2014, respectively, were pledged under the securities-backed credit program. The Bank’s credit limit varies according to the amount and composition of the investment and loan portfolios pledged as collateral.
As of September 30, 2015 and December 31, 2014, the Company had no Federal funds purchased.

Note 7. Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity’s proportionate share of the consolidated provision for income taxes. Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. On the consolidated balance sheets, net deferred tax assets are included in accrued interest receivable and other assets. The Company establishes a tax valuation allowance when it is more likely than not that a recorded tax benefit is not expected to be fully realized. The expense to create the tax valuation allowance is recorded as an additional income tax expense in the period the tax valuation allowance is created. Based on management’s analysis as of September 30, 2015 and December 31, 2014, the Company maintained a deferred tax valuation allowance of $20,000 related to California capital loss carryforwards.

Accounting for uncertainty in income taxes - The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of tax expense in the consolidated statements of income. As of September 30, 2015 and December 31, 2014, the reserve for uncertain tax positions attributable to tax credits and deductions related to enterprise zone activities in California was $206,000 and $180,000, respectively. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

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Note 8. Commitments and Contingencies

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans.

Commitments to extend credit amounting to $200,880,000 and $214,131,000 were outstanding at September 30, 2015 and December 31, 2014, respectively. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract unless waived by the Bank. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Included in commitments to extend credit are undisbursed lines of credit totaling $199,673,000 and $212,501,000 at September 30, 2015 and December 31, 2014, respectively. Undisbursed lines of credit include credits whereby customers can repay principal and request principal advances during the term of the loan at their discretion and most expire between one and 12 months.

Included in undisbursed lines of credit are commitments for the undisbursed portions of construction loans totaling $24,505,000 and $15,977,000 as of September 30, 2015 and December 31, 2014, respectively. These commitments are agreements to lend to customers, subject to meeting certain construction progress requirements established in the contracts. The underlying construction loans have fixed expiration dates.

Standby letters of credit and financial guarantees amounting to $1,207,000 and $1,630,000 were outstanding at September 30, 2015 and December 31, 2014, respectively. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most standby letters of credit and guarantees carry a one year term or less. The fair value of the liability related to these standby letters of credit, which represents the fees received for their issuance, was not significant at September 30, 2015 or December 31, 2014. The Company recognizes these fees as revenue over the term of the commitment or when the commitment is used.

The Company generally requires collateral or other security to support financial instruments with credit risk. Management does not anticipate any material loss will result from the outstanding commitments to extend credit, standby letters of credit and financial guarantees. At September 30, 2015 and December 31, 2014, the balance of a contingent allocation for probable loan loss experience on unfunded obligations was $195,000 and $165,000, respectively. The contingent allocation for probable loan loss experience on unfunded obligations is calculated by management using an appropriate, systematic, and consistently applied process. While related to credit losses, this allocation is not a part of the allowance for credit losses and is considered separately as a liability for accounting and regulatory reporting purposes, and is included in Other Liabilities on the Company’s balance sheet.

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or consolidated results of operations of the Company.

Note 9. Earnings Per Share

Basic earnings per share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, stock appreciation rights settled in stock or restricted stock awards, result in the issuance of common stock which shares in the earnings of the Company. A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

Basic Earnings Per Share	For the Three Months Ended September 30,	For the Nine Months Ended September 30,

(In thousands, except share and per share amounts)	2015	2014	2015	2014
Net income available to common shareholders	$2,517	$2,351	$8,061	$7,660
Weighted average shares outstanding	10,938,160	10,919,630	10,928,780	10,917,892
Basic earnings per share	$0.23	$0.22	$0.74	$0.70

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Diluted Earnings Per Share	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands, except share and per share amounts)	2015	2014	2015	2014
Net income available to common shareholders	$2,517	$2,351	$8,061	$7,660
Weighted average shares outstanding	10,938,160	10,919,630	10,928,780	10,917,892
Effect of dilutive stock options	86,794	95,277	83,244	87,661
Weighted average shares of common stock and common stock equivalents	11,024,954	11,014,907	11,012,024	11,005,553
Diluted earnings per share	$0.23	$0.21	$0.73	$0.70

During the nine month periods ended September 30, 2015 and 2014, options to purchase 26,704 and 171,065 shares of common stock, respectively, were not factored into the calculation of dilutive stock options because they were anti-dilutive. During the three month periods ended September 30, 2015 and 2014, options to purchase 36,636 and 162,160 shares of common stock, were not factored into the calculation of dilutive stock options because they were anti-dilutive.

Note 10. Share-Based Compensation

The Company has three share based compensation plans as described below. Share-based compensation cost recognized for those plans was $184,000 and $93,000 for the nine months ended September 30, 2015 and 2014, respectively. For the quarters ended September 30, 2015 and 2014, share-based compensation was $61,000 and $39,000, respectively. The recognized tax benefits for the share based compensation expense were $11,000 and $12,000, respectively, for the nine month periods ended September 30, 2015 and 2014. For the quarters ended September 30, 2015 and 2014, recognized tax benefits were $1,000 and $2,000, respectively.
The Central Valley Community Bancorp 2000 Stock Option Plan (2000 Plan) expired on November 15, 2010. The Central Valley Community Bancorp 2005 Omnibus Incentive Plan (2005 Plan) was adopted in May 2005 and expired March 16, 2015. While outstanding arrangements to issue shares under these plans, including options, continue in force until their expiration, no new options will be granted under these plans.
The Central Valley Community Bancorp 2015 Omnibus Incentive Plan (2015 Plan) was adopted in May 2015. The plan provides for awards in the form of incentive stock options, non-statutory stock options, stock appreciation rights, and restricted stock. The plan also allows for performance awards that may be in the form of cash or shares of the Company, including restricted stock. Outstanding arrangements to issue shares under this plan including options, will continue in force until expiration according to their respective terms.

Stock Option Plan

The Company bases the fair value of the options granted on the date of grant using a Black-Scholes Merton option pricing model that uses assumptions based on expected option life and the level of estimated forfeitures, expected stock volatility, risk free interest rate, and dividend yield. The expected term and level of estimated forfeitures of the Company's options are based on the Company's own historical experience. Stock volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U. S. Treasury yield curve for the periods within the contractual life of the options in effect at the time of grant. The compensation cost for options granted is based on the weighted average grant date fair value per share.

No options to purchase shares of the Company's common stock were granted during the nine month periods ended September 30, 2015 and 2014.

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A summary of the combined activity of the Company's Stock Option Compensation Plans for the nine month period ended September 30, 2015 follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at January 1, 2015	368,360	$8.89		
Options exercised	(5,760)	$6.62		
Options forfeited	(118,195)	$13.27		
Options outstanding at September 30, 2015	244,405	$6.83	4.31	$1,288
Options vested or expected to vest at September 30, 2015	242,453	$6.82	4.29	$1,280
Options exercisable at September 30, 2015	211,885	$6.65	3.91	$1,155

Information related to the stock option plan is as follows (in thousands):

	For the Nine Months Ended September 30, 2015	2014
Intrinsic value of options exercised	$26	$39
Cash received from options exercised	$38	$45
Excess tax benefit realized for option exercises	$4	$6

As of September 30, 2015, there was $99,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under all plans. The cost is expected to be recognized over a weighted average period of 1.97 years. The total fair value of options vested was $90,000 and $98,000 for the nine months ended September 30, 2015 and 2014.

Restricted Common Stock Awards

The 2005 and 2015 Plans provide for the issuance of restricted common stock to directors and officers. Restricted common stock grants typically vest over a five-year period. Restricted common stock (all of which are shares of our common stock) is subject to forfeiture if employment terminates prior to vesting. The cost of these awards is recognized over the vesting period of the awards based on the fair value of our common stock on the date of the grant. The following table summarizes restricted stock activity for the nine month period ended September 30, 2015 as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding shares at January 1, 2015	56,850	$12.68
Granted	9,268	$10.79
Vested	(11,085)	$12.67
Forfeited	(2,005)	$12.95
Nonvested outstanding shares at September 30, 2015	53,028	$12.34

There were no grants of restrictive stock during the three month period ended September 30, 2015. During the quarter ended September 30, 2014, 48,425 shares of restricted common stock were granted from the 2005 Plan. The restricted common stock had a fair market value of $12.95 per share on the date of grant. During the nine month period ended September 30, 2015, 9,268 shares of restricted common stock were granted from the 2005 Plan. The restricted common stock had a fair market value of $10.79 per share on the date of grant. During the nine month period ended September 30, 2014, 57,330 shares of restricted common stock were granted from the 2005 Plan. The restricted common stock had a fair market value of 12.68 per share on the date of grant.These restricted common stock awards vest 20% after Year 1. Thereafter, 20% of the remaining restricted stock will vest on each anniversary of the initial award commencement date and will be fully vested on the fifth such anniversary.

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As of September 30, 2015, there were 53,028 shares of restricted stock that are nonvested and expected to vest. As of September 30, 2015, there was $595,000 of total unrecognized compensation cost related to nonvested restricted common stock. Restricted stock compensation expense is recognized on a straight-line basis over the vesting period. This cost is expected to be recognized over a weighted-average remaining period of 3.83 years and will be adjusted for subsequent changes in estimated forfeitures. Restricted common stock awards had an intrinsic value of $642,000 at September 30, 2015.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain matters discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained herein that are not historical facts, such as statements regarding the Company's current business strategy and the Company's plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Such risks and uncertainties include, but are not limited to (1) significant increases in competitive pressure in the banking industry; (2) the impact of changes in interest rates, a decline in economic conditions at the international, national or local level on the Company's results of operations, the Company's ability to continue its internal growth at historical rates, the Company's ability to maintain its net interest margin, and the quality of the Company's earning assets; (3) changes in the regulatory environment; (4) fluctuations in the real estate market; (5) changes in business conditions and inflation; (6) changes in securities markets; and (7) risks associated with acquisitions, relating to difficulty in integrating combined operations and related negative impact on earnings, and incurrence of substantial expenses. Therefore, the information set forth in such forward-looking statements should be carefully considered when evaluating the business prospects of the Company.
When the Company uses in this Quarterly Report on Form 10-Q the words "anticipate," "estimate," "expect," "project," "inten
"commit," "believe," and similar expressions, the Company intends to identify forward-looking statements. Such statements are not guarantees of performance and are subject to certain risks, uncertainties and assumptions, including those described in this Quarterly Report on Form 10-Q. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. The future results and shareholder values of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond the Company's ability to control or predict. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.
The Securities and Exchange Commission (SEC) maintains a web site which contains reports, proxy statements, and other information pertaining to registrants that file electronically with the SEC, including the Company. The Internet address is: www.sec.gov. In addition, our periodic and current reports are available free of charge on our website at www.cvcb.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the Company's most critical accounting policies are those which the Company's financial condition depends upon, and which involve the most complex or subjective decisions or assessments.
There have been no material changes to the Company's critical accounting policies during 2015. Please refer to the Company's 2014 Annual Report to Shareholders on Form 10-K for a complete listing of critical accounting policies. This discussion should be read in conjunction with our unaudited consolidated financial statements, including the notes thereto, appearing elsewhere in this report.

OVERVIEW

Third Quarter of 2015

In the third quarter of 2015, our consolidated net income was $2,517,000 compared to net income of $2,351,000 for the same period in 2014.